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UNITED STATES DEPARTMENT OF AGRICULTURE

AGRICULTURAL ADJUSTMENT ADMINISTRATION

WASHINGTON, D. C.

THE INTEREST OF AGRICULTURE IN RECIPROCAL TRADE AGREEMENTS

ADDRESS BEFORE LAND GRANT COLLEGE ASSOCIATION

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American farmers are interested in a restoration of trade, both through the direct effect it would have on the export market for their farm products, and also for the indirect effect it would have on the domestic market.

The foreign market used to be exceedingly important as a direct outlet for American farm products. Before the War and again during the 10 years following the War, the export market accounted for more than half the sales of American cotton, about one-fourth of the wheat, one-sixth of the hog products (especially processed products, such as hams, bacon, and lard), one-third of the tobacco (especially the dark-fired and flue-cured types) and important portions of the crops of rice, apples, grapefruit, and other perishables. But even more important than the quantity moving directly into export was the fact that the prices received for the entire production of these products within this country were very materially influenced by the price on the world market. Thus, in some products, such as hogs, where only a relatively small fraction of the product was exported, world demand nevertheless tended to set the prices for the entire product within this country, and thus influenced the price of corn as well. Before the passage of the Agricultural Adjustment Act, nearly half of the farmers' income was directly influenced by the vicissitudes of world market conditions.

The Agricultural Adjustment Administration, through the device of the processing tax, has cut off American farm export products from this dependence on world markets. In effect, then, the processing tax might be called "the farmers' tariff." Through benefit payments derived from the taxes, those producers of the major export products who cooperate in production control are now assured of about parity incomes for that part of each product which goes for domestic consumption—their "domestic allotment." But although the export market no longer determines the income from the entire crop, it still remains important as a major factor in determining how much of each product it is desirable to produce, and therefore how much acreage it is wise to plant. The extent to which reopening of export markets would influence acreage can be judged from the area involved in producing for export. Before the depression, exports took each year the product of between 60 and 80 million acres. From 1926 on, exports began to dwindle away, until in 1932 they accounted for the production of but 43 million acres. It was largely

due to this reduction in the export outlet that surplus supplies piled up to such extraordinary levels, farmers' prices were driven so low, and production control programs became a necessity.

Any progress which can be made through trade agreements or otherwise in restoring foreign markets will increase the quantity which can be exported and so permit a corresponding upward adjustment in farm acreage and production.

Reopening of export markets is also important to farmers from the indirect effect it would have on the domestic demand for farm products. The decline in foreign trade has affected not only farm products but also industrial products for which we used to have a substantial export demand—automobiles, farm machinery, typewriters, adding machines, sewing machines, locomotives, and many other typical American industrial products. When intense protectionism shut off these export markets our factory workers lost their jobs and could not buy their usual food or clothing. The depression was in part a result of the disappearance of our foreign trade, both agricultural and industrial.

Effective measures to restore foreign trade would help increase the industrial exports as well as agricultural exports; would help put city workers back to work and increase their buying power for farm products. Farmers thus have a double stake in effective steps to restore foreign trade.

Farmers should remember this indirect effect of increased industrial exports when reciprocal trade agreements are developed. Some of the countries with which we may develop agreements—for example, some of the South American countries—produce most of the same agricultural products which we produce, and this fact gives little opportunity for concessions on farm products. Such countries, however, may be able to make very important concessions toward restoration of our industrial production. In such cases farmers should recognize that this expanded market for manufactured products from this country increases the domestic buying power for farm products, and they should support such agreements, even though on the surface they might appear to offer no direct aid to agriculture.

It is on a restoration of the whole circle of international trade that agricultural prosperity and industrial prosperity both depend. Farmers as well as industrialists must look beyond immediate effects to the broader and lasting effects if real assistance to recovery is to be derived from these negotiations.

In talking of foreign trade we must face the fact that we cannot sell abroad if we will not buy. Concessions from other countries will do little good unless we so change our tariffs that we actually bring in greatly increased quantities of foreign products. Only in that way can our customers abroad get the dollars to buy our products. We have used many dodges to try to evade this basic fact. We sent commodities abroad and took in return foreign paper currency, foreign bonds, foreign stocks, and even short-time IOU's. It is hard to say which of these is worth the least today. We took gold from abroad, until our gold reserves were swollen far beyond normal needs, and monetary reserves were sadly depleted almost everywhere else. We revalued our dollar and made our exports cheaper for foreigners to buy. And now we are even taking silver in return for exports. All these are but temporary expedients. Unless in the end we stand prepared to buy goods and services in large quantities, we cannot send large quantities of goods abroad.

We cannot expect, however, that efforts to restore foreign trade will produce any very immediate results in rapid expansion of foreign markets. The high tariffs and restrictions on foreign trade led farmers in European countries to continue to increase their acreage and production even after the war-time shortages were made good to take advantage of the high prices produced by the tariffs. These expanded acreages and new industries could not be rapidly eliminated so as to make way for our products. Instead, a check on further expansion and a gradual reduction in such production, and a gradual increase of exports from us is the best we can hope for. In fact, efforts to increase their own production are still under way in several countries. Italy and Germany in particular are discussing methods of producing artificial cotton directly from wood pulp—not merely rayon as produced in the past, but a lint material which can be spun just like cotton. So long as new factories to produce such products are being built up, we cannot expect any immediate expansion in demand for our products.

Not only high tariffs, but financial difficulties of foreign countries have helped to restrict trade. These financial difficulties have led to exchange controls, import quotas, clearing agreements, and numerous other devices all aimed at improving the balance of payment of each country by restricting imports. All these things help strangle trade, yet are difficult to unravel.

One difficulty which we face in reestablishing trade through bargaining agreements is that international trade usually does not move directly between two countries, but instead international balances are frequently settled by a swap between three or even four countries, that is known as trilateral or quadrilateral trade. For example, we used to send our wheat to European countries, the European countries in turn sent their industrial products to South American countries, and South American countries sent us coffee or rubber to settle the accounts. Likewise we sent cotton to the Continent, the Continent sent industrial products to the Orient and other Asiatic countries, and they sent us silk or other tropical products to pay for them.

Much of our farm products in the past used to flow through such indirect-trade routes. Only a portion of them was paid for directly by imports from the country to which we sent exports. This fact creates considerable difficulty in the present negotiations for trade agreements. Under the Tariff Reciprocity Act, approved last spring, the President is authorized to make reductions of 50 percent in existing tariffs in return for reductions in tariffs by other countries. There is a great temptation in working out such an agreement with a particular country to try to work it out so that we make them certain concessions in return for concessions they make to us. The extent to which agriculture could gain from this process is very limited, since most of our agricultural products in the past have gone to countries from which we do not directly import much, but where instead they paid for our agricultural products through indirect trade as suggested above. For that reason, it is highly important that in negotiating international agreements, we devote our attention to trying to bring down the general level of trade barriers throughout the world more than trying to get direct concessions in particular countries. For example, as far as farmers are concerned, it might even pay us to ask some South American countries, in return for concessions which we offer them, to make concessions to England for the importation of industrial products from England, and at the

same time arrange with England for concessions on the importation of our products in return for concessions those countries were offering her. While this might be impossibly complicated, it is only by the reestablishment of such indirect trade that it will be possible to get back again the volume of international trade on which our farmers used to depend. If the thing works out that we restrict trade to that which can flow directly between individual countries, our efforts at trade agreements are not likely to give us much success.

In carrying out these trade agreements, we face two alternatives—to play the international trade game the way the other countries are playing it, or to try to change the whole international attitude toward world trade. What the other countries have been doing is to put on additional restrictions, with slight concessions aimed at benefitting individual countries. If we play the game the same way, while we might get worth-while individual concessions at particular points, by and large the new restrictions would tend to hinder world recovery rather than help it, and we would be sure to lose in the process. What we are trying to do is not to play the game the way the others have been playing it, but to change the rules of the game so that instead of holding down trade, we will stimulate trade; instead of piling up more restrictions, we will leave fewer restrictions to be faced. There is only a chance we will win, for the whole world is still extremely nationalistically minded, and it remains to be seen whether our effort can change the whole tenor of world development. But the advantages to us and the rest of the world in restoring international cooperation are highly important, and we must follow through to see if we cannot win through to success.

Even if we have good success in securing cooperation from other countries, it will be a long and slow development to restore foreign trade. Some of our exports probably can never be fully restored. For example, we exported 369 million bushels of wheat in 1920, but that reflected the War scarcity which is very unlikely to reappear again. In other exports, however, as for example, fresh fruits, cotton, tobacco, etc., it should in the end be possible to restore our previous volume in reasonably full measure. Even with good will and understanding and a willingness to make progress a few steps at a time, we must expect a period of five or possibly ten years before anything like a full reestablishment of foreign trade can take place.

If we are not successful in reestablishing a considerable portion of our exports, then grave readjustments lie ahead. New uses must be found for millions of acres, and new employments for hundreds of thousands of people, in the cotton, wheat, tobacco, and corn-and-hog belts. Railways that serve seaports, and port facilities and seaboard industries which depend on foreign trade, may need to be relocated. Our whole industrial organization, which tied in with the rest of the world at a score of ocean gateways, might have to be materially recast. Perhaps interior centers would become dominant, while Boston, New York, Philadelphia, New Orleans, Galveston, San Francisco, Portland, Seattle, and other seaports would cease to grow.

Both in farming and in industry alike, upon successful restoration of foreign trade depends our ability to reemploy our previous organization of economic activity. Barring foreign trade restoration, we must reorganize the economic life of this country more drastically than anyone has yet visualized—or else accept a permanent level of stabilized poverty for millions of our people.